## APPENDIX.

## STATUTES INVOLVED.

The pertinent statutes are the following sections of the Revenue Act of 1936 (49 Stat. L. 1648, C. 690) which appear in substance in the corresponding numbered sections of the Internal Revenue Code (53 Stat. L. 1, C. 2), except as since modified:

Sec. 23. Deductions From Gross Income.

In computing net income there shall be allowed as deductions:

* * * *

(f) Losses By Corporations.—In the case of a corporation, losses sustained during the taxable year and not compensated for by insurance or otherwise.

* * * *

(h) Basis For Determining Loss.—The basis for determining the amount of deduction for losses sustained, to be allowed under subsection (e) or (f), shall be the adjusted basis provided in section 113(b) for determining the loss from the sale or other disposition of property.

* * * *

(j) Capital Losses.—Losses from sales or exchanges of capital assets shall be allowed only to the extent provided in section 117(d).

* * * *

Sec. 117. Capital Gains and Losses.

* * * *

(d) Limitation On Capital Losses.—Losses from sales or exchanges of capital assets shall be allowed only to the extent of $2,000 plus the gains from such sales or exchanges. * * *

* * * *

Sec. 112. Recognition of Gain or Loss.

(a) General Rule.—Upon the sale or exchange of property the entire amount of the gain or loss deter-

mined under section 111, shall be recognized, except as hereinafter provided in this section.

(b) Exchanges Solely in Kind.—

* * * *

(5) Transfer to Corporation Controlled by Transferor.—No gain or loss shall be recognized if property erty is transferred to a corporation by one or more persons solely in exchange for stock or securities in such corporation, and immediately after the exchange such person or persons are in control of the corporation; but in the case of an exchange by two or more persons this paragraph shall apply only if the amount of the stock and securities received by each is substantially in proportion to his interest in the property prior to the exchange.

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Sec. 113. Adjusted Basis for Determining Gain or Loss.

(a) Basis (Unadjusted) of Property.—The basis of property shall be the cost of such property; except that—

* * * *

(8) Property Acquired by Issuance of Stock or as Paid-in Surplus.—If the property was acquired after December 31, 1920, by a corporation—

(A) by the issuance of its stock or securities in connection with a transaction dscribed in section 112(b)(5) * * *, or

(B) as paid-in surplus or as a contribution to capital,

then the basis shall be the same as it would be in the hands of the transferor. * * *

* * * *

(b) Adjusted Basis.—The adjusted basis for determining the gain or loss from the sale or other disposition of property, whenever acquired, shall be the basis determined under subsection (a), adjusted as hereinafter provided.

* * * *

Sec. 45. ALLOCATION OF INCOME AND DEDUCTIONS.

In any case of two or more organizations, trades, or businesses (whether or not incorporated, whether or not organized in the United States, and whether or not affiliated) owned or controlled directly or indirectly by the same interests, the Commissioner is authorized to distribute, apportion, or allocate gross income or deductions between or among such organizations, trades, or businesses, if he determines that such distribution, apportionment, or allocation is necessary in order to prevent evasion of taxes or clearly to reflect the income of any such organizations, trades, or businesses.